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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **September 1986**

CONSTRUCTION DOING ITS FAIR SHARE

The Pennsylvania construction industry has emerged as a leader in the State's economy during the first seven months of the year. However, another strong showing by the industry in July was not enough to enable the overall economy to put a halt to the string of sluggish performances which have been turned in recently.

Through July, the value of construction contracts awarded in Pennsylvania is up 25.8 percent compared to the first seven months of 1985 (see chart). Furthermore, all three construction sectors, residential, nonresidential, and nonbuilding, have realized gains in excess of 20 percent. Construction contracts were valued at a seasonally adjusted $669 million in July, up 21.2 percent from June. Gains were realized in the residential and nonbuilding sectors, while a slight decline occurred in the nonresidential category.

The apparent surge in construction activity has resulted in a considerable increase in jobs, as shown in the accompanying chart. Job levels have been up anywhere from five to ten percent from a year ago each month this year. The 203,100 positions in construction during July after adjustment for normal seasonal variations is the highest since before the back-to-back recessions of the early 1980s.

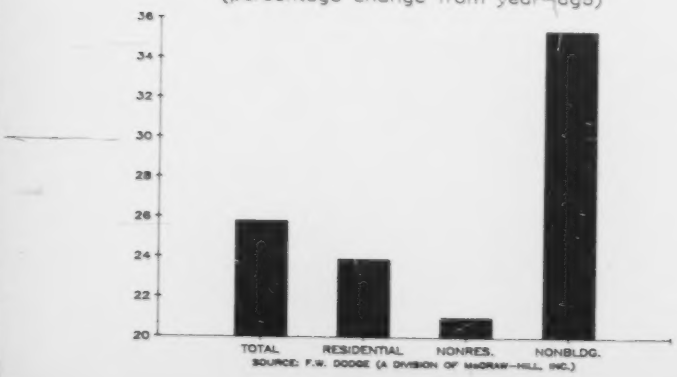
Despite a misleading decline in job levels, the first since January 1985, **it is difficult to detect any weakening in the Commonwealth's nonmanufacturing sector.** All told, the number of jobs in these industries dipped by a seasonally adjusted 6,000 in July to 3.76 million. Much of the decline is attributable to a job loss brought on by a strike involving Philadelphia municipal workers which has since been settled. Furthermore, the industries which have provided the bulk of all new jobs in Pennsylvania as of late, services, trade, finance, and (as mentioned earlier) construction, continued adding employees in July.

On the other hand, it is hard to detect any positive signals coming from the manufacturing sector. Job levels in these industries fell to another record-low in July, a seasonally adjusted 1.05 million. However, the slight decline of 200 from June represents the third consecutive month in which job losses have narrowed. The average factory workweek, which usually rises before any increase in hiring trends, held steady at 40.1 hours after seasonal adjustment. Total hours worked and total payrolls both declined slightly. Activity in the State's steel mills remains sluggish at best. Average daily steel production declined for the second straight month, settling at a seasonally adjusted 27,000 tons, down 1,000 from June.

There are several reasons for manufacturing's difficulties in Pennsylvania and the U.S. Last month's *Survey* touched on one of them, intense foreign competition. Another contributing factor can certainly be traced to the restructuring currently taking place in many of the nation's goods-producing industries. As these firms strive to be more competitive, the end result is often a shift to more capital-intensive production processes requiring less human input. Although definitive conclusions cannot be drawn due to a lack of adequate data, it is fairly safe to say that overall manufacturing output in Pennsylvania has probably held fairly steady as of late. At the least, it is certainly not declining at the same pace as sectoral employment. This contention is backed up by long-run trends in electricity sales to industry, a good proxy for industrial production. While other measures of manufacturing's health have declined considerably, electricity sales have held their own. In fact, they have increased in each of the past four months.

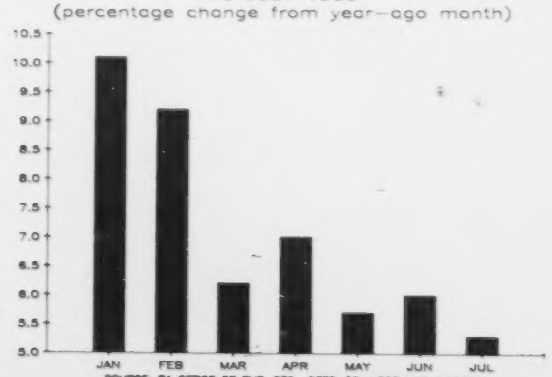
The employment/unemployment situation in the State remains cloudy. At best, employment growth was slug-

GROWTH IN PA CONSTRUCTION CONTRACTS AWARDED, 1986 YTD
(percentage change from year-ago)



SOURCE: F.W. DODGE (A DIVISION OF McGRAW-HILL, INC.)

GROWTH IN PA CONSTRUCTION JOB LEVELS, JAN 1986 TO JULY 1986
(percentage change from year-ago month)



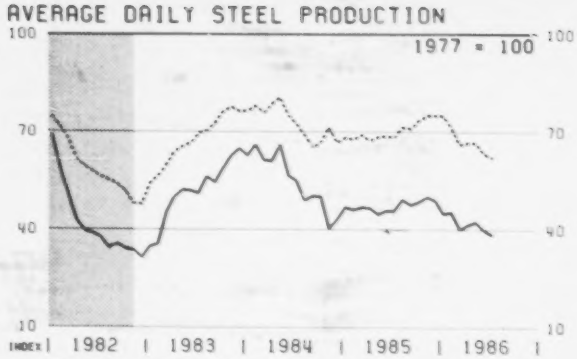
SOURCE: PA OFFICE OF EMP. SEC., DEPT. OF LABOR AND INDUSTRY

gish in July. Estimates made by the U.S. Bureau of Labor Statistics show a slight increase of 3,000 after adjustment for normal seasonal variations, the first gain since March. Our estimates suggest that resident employment dropped by another 3,000 to 5.21 million. These relatively small differences are due to sampling error, minor differences in seasonal adjustment techniques, and differences in computer systems. Still, July's employment performance represents some improvement over the fairly large declines of the past few months.

Given the first increase in the labor force since March, **employment's sluggish performance resulted in a slight rise in the number of unemployed and in the jobless rate.** During July, 6.6 percent of the labor force went without a job after seasonal adjustment, up from 6.5 percent in June. Trends in initial claims for unemployment benefits, which usually rise and fall in advance of similar changes in unemployment, show no considerable upward or downward pattern over the past several months.

During the first seven months of the year, the improvement in the employment/unemployment picture in Pennsylvania relative to a year ago has been more pronounced than in the nation as a whole. Declines in unemployment and gains in employment and the labor force have been larger in the Commonwealth. However, in June and July, the State

AVERAGE DAILY STEEL PRODUCTION

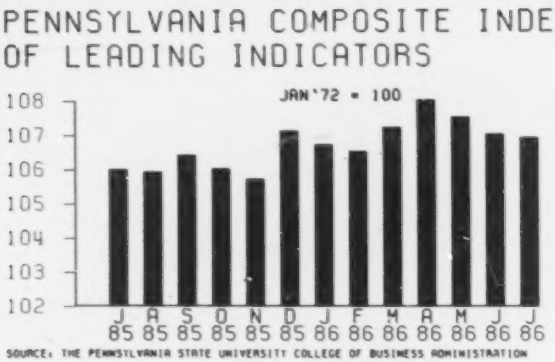


SHADED AREA REPRESENTS PERIOD OF NATIONAL RECESSION

Economic Activity in Pennsylvania	UNADJUSTED DATA 1986 June	UNADJUSTED DATA 1986 July	UNADJUSTED DATA 1985 July	SEASONALLY ADJUSTED DATA 1986 June	SEASONALLY ADJUSTED DATA 1986 July	SEASONALLY ADJUSTED DATA 1985 July	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1986 June	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1986 July	SEASONALLY ADJUSTED INDEXES (1977 = 100) 1985 July
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,854*	4,829	4,750	4,848*	4,802	4,737	105.3*	105.2	103.8
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,789*	3,768	3,664	3,761*	3,755	3,651	116.7*	116.5	113.3
Manufacturing									
No. of wage and salary jobs (thous.)	1,059*	1,045	1,085	1,047*	1,046	1,086	78.0*	78.0	80.9
Ave. wkly. hrs. worked by prod. workers	40.3	40.1	39.9	40.1	40.1	40.0	101.6	101.6	101.2
Total wkly. person-hours worked (mils.)	28.9*	28.2	29.3	28.4*	28.3	29.4	74.0*	73.8	76.6
Total wkly. payroll (mil. dols.)	280.0*	274.4	280.9	275.6*	275.2	282.0	122.7*	122.5	125.5
Steel production (thous. tons)	872*	760	907	n.a.	n.a.	n.a.	39.8*	38.4	45.8
Industrial electric power sales (mil. kwh)	3,613	3,568	3,469	3,556	3,597	3,479	96.3	97.4	94.2
Mining									
Anthracite coal (thous. net tons)	297	294	301	287	287	293	58.8	58.8	59.9
Bituminous coal (thous. net tons)	4,653	n.a.	5,023†	4,449	n.a.	4,986†	63.1	n.a.	70.7†
Construction contracts awarded (mil. dols.)									
Total	734.8	797.1	688.7*	551.8	669.0	579.5*	171.5	207.9	180.1*
Residential building	310.9	368.3	329.5*	224.6	292.2	274.1*	159.6	207.6	194.7*
Nonresidential building	229.7	247.6	222.0*	196.2	185.7	165.8*	180.9	171.1	152.8*
Nonbuilding (utilities and public works)	194.3	181.2	137.2*	131.0	191.1	139.6*	180.8	263.7	192.6*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,260	5,366	5,258	5,211	5,208	5,102	108.4	108.4	106.2
Unemployed									
No. of persons (thous.)	417	387	448	370	376	437	92.2	93.7	109.1
Rate (percentage of labor force)	7.3	6.7	7.8						
Rate, seasonally adjusted				6.5	6.6	7.8			
Civilian labor force, no. of persons (thous.)	5,676	5,753	5,706	5,580	5,584	5,540	107.2	107.2	106.4
Initial claims for unemployment benefits	99,708	120,699	137,398	108,506	112,905	124,407	75.8	78.9	86.9

Consumer Prices, all items	Urban Indexes (1967 = 100) 1986 June	1986 July	1985 July	Percentage Change Month Ago	Year Ago
U.S. city average	327.9	328.0	322.8	+0.0	+1.6
Philadelphia	321.7	323.0	315.5	+0.4	+2.4
Pittsburgh	328.6	n.a.	325.9†	n.a.	+0.8
Northeast PA	n.a.	309.0	306.6	n.a.	+0.8

NOTES: Data on employment, payrolls and hours have been revised to first quarter 1985 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for June 1985 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.



appears to have lost its advantage relative to the nation in terms of employment and labor force growth.

The Pennsylvania index of coincident indicators, which moves in step with the economy, turned in its fourth consecutive decline in July, providing further evidence of the general economic weakness. **A third consecutive decline was registered by the index of leading indicators. Although this should not be interpreted as signalling a pending economic downturn, it does imply a period of fairly slow growth in the near-term.**

— William D. Anderson

Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	*Coincident*	*Leading*	*Coincident*
December	107.1	86.6	1.3	1.6
January 1986	106.7	86.7	-0.4	0.1
February	106.5	86.4	-0.2	-0.3
March	107.2	86.8	0.7	0.5
April	108.0	86.6	0.7	-0.2
May	107.5	86.1	-0.5	-0.6
June	107.0	85.5	-0.5	-0.7
July	106.9	85.4	-0.1	-0.1

Personal Income Report

Pennsylvania personal income rose at a modest quarterly rate of 1.1 percent during the January-March period to a seasonally adjusted $157.5 billion on an annual basis. This works out to a gain of 3.8 percent from the year-ago period. Personal income is the income received by persons from all sources: from participation in production (wages and salaries); from dividends, interest, and rent; and from transfer payments. The Commonwealth's quarterly gain matched that which occurred in the nation. However, the 4.7 percent annual growth rate in personal income during the second quarter in the U.S. was nearly one full percentage point above the State's.

Pennsylvania's performance in the nonfarm sector relative to the nation was disappointing. Nonfarm personal income grew 1.2 percent on a quarterly basis in the Commonwealth compared to a 1.5 percent national gain. On an annual basis, second quarter's 3.8 percent advance in Pennsylvania falls well short of the nation's five percent rise. A good deal of Pennsylvania's difficulties is attributable to sluggish growth in wage and salary disbursements in the manufacturing sector.

Pennsylvania personal income
(seas. adj. ann. rates; millions of dollars)

	Personal income	Pct. change Qt. ago	Pct. change Yr. ago
1986:IQ	157,539	1.1	3.8
1985:IVQ	155,782	1.2	4.1
1985:IQ	151,768	1.4	6.9

Source: U.S. Dept.of Commerce,
Bur. of Econ. Analysis

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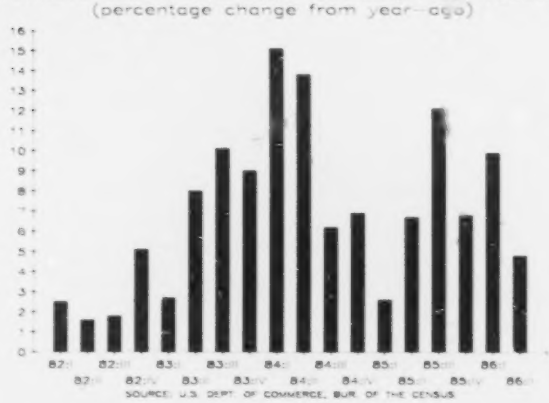
Retail Sales Report

Retail sales in Pennsylvania advanced 4.8 percent on an annual basis during this year's second quarter. The gain pushed retail sales up to $17.1 million for the three-month period and follows a 9.9 percent gain in the first quarter. So far this year, retail sales in the Commonwealth are up 7.1 percent from the first half of 1985. Over the first half of 1986, the growth in retail sales has been stronger in Pennsylvania relative to the nation. Annual growth rates in the U.S. have been 5.2 and 3.8 percent in the first and second quarters, respectively, and 4.5 percent on a year-to-date basis.

Although the growth in retail sales appears to be slowing from the rapid pace set earlier in the expansion, recent gains have been considerably stronger than those which occurred during the back-to-back recessions of the early 1980s (see chart). The year-to-date advance so far this year is identical to the annual gain in 1985, but falls well short of the increases in 1983 and 1984. On the other hand, this year's advance fares very well when compared to the 2.8 percent gain of 1982.

PENNSYLVANIA RETAIL SALES GROWTH, 1982–1986:IIQ
(percentage change from year-ago)



SOURCE: U.S. DEPT. OF COMMERCE, BUR. OF THE CENSUS

Pennsylvania retail sales
(millions of dollars)

	Retail sales	Pct. change from yr. ago
1986:IIQ	17,125	4.8
1986:IQ	14,940	9.9
1986 YTD	32,065	7.1

June 1986 data is preliminary.
Source: U.S. Dept. of Commerce,
Bureau of the Census

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